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February 19, 2008

#### **AGENDA ITEM 4a**

#### **TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Approval of General Pension Consultant Pool and the Creation of CalPERS Asset Allocation Funds
- II. PROGRAM:** CalPERS Total Fund
- III. RECOMMENDATION:**
  - 1) Approve the addition of Callan Associates, Inc. and Mercer Investment Consulting, Inc. to the General Pension Consultant Services Spring-fed Pool.
  - 2) Approve the creation of CalPERS Asset Allocation Funds for the Supplemental Income Plans.

#### **IV. ANALYSIS:**

On December 17, 2007, the Investment Committee approved the issuance of a Request for Proposal (RFP) to add consultants to refresh the General Pension Consultant Services Spring-fed Pool.

The spring-fed pool process allows staff to seek additional firms for the pool to meet changing requirements of the investment program including creation of customized CalPERS asset allocation funds. As approved by the Investment Committee, the RFP refresh was issued on December 20, 2007. CalPERS received proposals from Callan Associates, Inc. (Callan) and Mercer Investment Consulting, Inc. (Mercer) by the January 17, 2008 final filing date for this solicitation. Profiles of Callan and Mercer are found in Attachment 1.

The proposals were read and scored by an Investment Office evaluation committee. Fee proposal scores were combined with technical proposal scores to determine the finalists to be recommended to the Investment Committee. The RFP specifies that the following criteria must be achieved by proposers to be recommended as a finalist:

- 1) The proposers must have the highest scoring proposals as determined by the evaluation committee.
- 2) The proposers must attain at least the minimum score achieved by the firms which were selected as finalists of the original RFP.

In addition, the RFP states that the Investment Committee may or may not choose to interview each finalist recommended by the evaluation committee. At the December 17, 2007 Investment Committee meeting, the Investment Committee chose not to conduct interviews with the firms recommended by staff for addition to the pool.

Based on the results of the RFP refresh process, staff recommends Callan and Mercer as finalists for addition to the General Pension Consultant Services Spring-fed Pool.

### **CalPERS Asset Allocation Funds**

The customized CalPERS asset allocation funds include both target date funds and risk based funds for offering within the Supplemental Income Plans (SIP) fund line-up. SIP will use the services of a firm in the General Pension Consultant Services Spring-fed Pool to develop the asset allocation for each of these funds which consider the participants' time until retirement and risk tolerance. Current asset allocation funds offered by SIP are managed by an external investment manager. Once these custom CalPERS funds are developed, they will be offered to SIP participants. Staff previously reported to the Investment Committee on the development of these plans in December 2007.

As part of the development process, the selected consultant will work with the Asset Allocation and Risk Management team to develop these funds. It is currently anticipated that the funds' asset allocation policies will be brought to the Policy Subcommittee in June 2008 and then the Investment Committee in August 2008 for approval. SIP plans to offer these funds to participants in the Fall of 2008 in connection with other enhancements to the line-up.

### **Recommendations**

Staff makes the following recommendations to the Investment Committee:

- 1) Approve the addition of Callan Associates, Inc. and Mercer Investment Consulting, Inc. to the General Pension Consultant Services Spring-fed Pool.
- 2) Approve the creation of CalPERS Asset Allocation Funds for the Supplemental Income Plans.

## **V. STRATEGIC PLAN:**

This agenda item is consistent with the Strategic Plan:

- 1) Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions.
- 2) Goal IX, achieve long-term, risk-adjusted returns.

## **VI. RESULTS/COSTS:**

For the development of the asset allocation funds, the one-time cost is estimated between \$70,000 to \$100,000 with the annual ongoing cost of \$30,000. The costs for the asset allocation funds will be incorporated within the \$1,200,000 annual cost of the General Pension Consultant Services Spring-fed Pool.

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